Sunfire Energy Corporation

1995 Annual Report

CORPORATE PROFILE

Sunfire Energy Corporation is an Alberta based company engaged in the exploration for and production of crude oil and natural gas.

The Company presently confines its exploration and development activities to a limited number of areas in Alberta where it has developed expertise. If possible, the Company maintains operatorship and markets its oil and gas production in order to maximize cash flow.

The Company's primary objective is to build shareholder value through the discovery of crude oil and natural gas reserves.

The Company is headquartered in Calgary and its common shares are listed on The Alberta Stock Exchange under the trading symbol SFE.A.

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ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting of the Corporation which will be held in the Barclay Room at The Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta on Wednesday, January 31, 1996 at 2:30 p.m.

HIGHLIGHTS

FINANCIAL ($)

YEAR ENDED JULY 31	1995	1994
Gross Revenue, less royalties	1,399,150	1,290,233
Cash flow from Operations	905,764	840,716
Per Share *	0.21	0.24
Net income	312,978	303,950
Per Share *	0.07	0.09
Capital Expenditures	1,358,393	1,331,000
Working Capital	42,413	499,425
Shareholders' Equity	5,304,740	5,00,006
Number of Common Shares Outstanding	4,261,590	4,278,090

* Based upon the weighted average number of common shares outstanding during the fiscal year, namely 4,277,287 (1994 3,479,360 common shares)

OPERATIONS

YEARS ENDED JULY 31	1995	1994
Production		
Crude Oil (Bbls/d)	43	38
Natural Gas (Mcf/d)	2,016	1,411
Reserves - Proven & Probable (net of royalties)		
Crude Oil (Mbls)	277	351
Natural Gas (Mmcf)	4,578	3,898
Present Value of Reserves (discounted at 15% before taxes)	$ 5,097,000	$ 6,340,000
Undeveloped Land Holdings		
Gross Acres	45,471	42,862
Net Acres	19,478	17,154

ABBREVIATIONS

Bbls	barrels
Bbls/d	barrels per day
Mbls	thousand of barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mmcf	million cubic feet
ARTC	means Alberta Royalty Tax Credit

REPORT TO THE SHAREHOLDERS

During the fiscal year ended July 31, 1995, the Company continued to grow despite very weak natural gas prices and declining investor interest in junior oil and gas companies. In our first complete year as a publicly traded Company, record production volumes, cash flow and net income were achieved. This solid performance was accomplished against a backdrop of a 32% decline in the price of its main commodity, natural gas.

The Company ended the fiscal year in a solid financial state with no debt, an unused operating line of credit, and sufficient cash flow to fund its immediate exploration and development expenditures. A slow down in the equity market discouraged funding of capital expenditures through equity issues. In fact, as a consequence of the low share price in relation to the underlying asset value per share, the Directors of the Company approved the institution of a "normal course issuer bid". By the year end, the Company had repurchased 16,500 of its shares for cancellation. This issuer bid is continuing until May 9, 1996.

Drilling activity during the fiscal year produced mixed results. Four successful oil wells at Bruderheim substantially increased oil production. However, anticipated oil production gains at Ronalane did not materialize as a consequence of a high working interest dry hole. Two exploratory wells and a development well drilled at Bruderheim were also abandoned. These dry holes at Bruderheim and Ronalane caused a modest downward revision of probable oil reserves. Two new gas wells drilled at Thorhild helped to develop additional gas reserves that were sufficient to replace almost 200% of the year's production. The Company's undeveloped land base was expanded as a result of several key acquisitions of new petroleum and natural gas rights. These acquisitions were not only in its main core producing areas, but in addition, land assembly commenced on several new exploration prospects.

In the forthcoming year, the Company will continue to drill within its core areas of Thorhild and Bruderheim. It is expected that up to five wells will be drilled in each area. Management's primary objective is to increase the Company's reserve base in these established producing areas. Cash flow generated by these reserves will be applied to new exploration prospects. The Company has set as a priority, the commencement of exploratory drilling on three of these new prospects during 1996. As a consequence of the Company's modest capitalization, success in any one of these prospects, when combined with its present reserve and production base, will have a dramatic effect on cash flow and asset value per share.

John M. Westlake
President and Chief Executive Officer

December 14, 1995

OPERATIONS REVIEW

DRILLING AND SEISMIC ACTIVITY

During the year ended July 31, 1995, the Company participated with an average 29% working interest in the drilling of 13 wells with the following results:

Drilling Activity in the Year ended July 31

	1995		1994	
	GROSS (1)	NET (2)	GROSS (1)	NET (2)
EXPLORATION				
Oil	0	0	0	0
Gas	1	0.27	5	1.65
Dry	4	1.12	1	0.27
Service/Suspended	0	0	0	0
	5	1.39	6	1.92
DEVELOPMENT				
Oil	4	0.98	1	0.23
Gas	2	0.57	4	0.70
Dry	2	0.83	0	0
Service/Suspended	0	0	1	0.50
	8	2.38	6	1.43
TOTAL	13	3.77	12	3.35

Notes:
(1) "Gross" wells means the number of wells in which the Corporation has a working interest.
(2) "Net" wells means the aggregate of the numbers obtained by multiplying each Gross well by the Corporation's percentage working interest therein.

Seismic activity during the year involved the acquisition of 68 kilometres of new data together with a 3 square kilometre three dimensional seismic program. These data helped to define the location of 4 of the foregoing wells.

PRODUCTION

During the fiscal year ended July, 1995, the Company increased its total natural gas production by 43% to a total of 735,817 Mcf from 514,933 Mcf. This volume is equivalent to a daily average of 2,016 Mcf for the year compared with an average of 1,411 Mcf/d in the prior year. The majority of the increase in volume resulted from improved production capability at Thorhild. The Company's net crude oil production increased by 15% to a total of 15,686 Bbls, equivalent to a daily average of 43 Bbls/d. The increase in volume is due to production from new wells drilled in the Bruderheim oil pool which more than offset the production decline at the Company's Ronalane oil pool.

LAND HOLDINGS

In the reporting year, the company expended $258,155 for the acquisition of 9,801 gross (4,521 net) acres of petroleum and natural gas rights from freehold owners and at Alberta Crown land sales. The average cost of the land acquisitions was $57 per acre. In addition to augmenting our holdings in existing core areas, land was acquired in several areas where new exploration prospects will be pursued in the forthcoming year.

Land Summary at July 31, 1995
(all lands are located in Alberta)

	GROSS (1) ACRES	NET (2) ACRES	ROYALTY (3) ACRES
UNDEVELOPED	45,471	19,478	160
DEVELOPED	27,640	5,452	3,120
	73,111	24,930	3,280

Notes:
(1) "Gross" refers to the total acres in which the Corporation has an interest.
(2) "Net" refers to the total acres in which the Corporation has an interest multiplied by the percentage working interest therein owned by the Corporation.
(3) "Royalty" refers to the total acres in which the Corporation has the right to receive a share of revenue as a royalty.

FINANCIAL ANALYSIS

Total production revenue for the fiscal year ended July 31, 1995 was $1,338,141 compared with $1,225,118 in the prior year. Increased sales volumes of natural gas was the main contributor to this revenue improvement. The natural gas sales price dropped sharply in early 1995, consequently, the average fieldgate price received by the Company for sales of natural gas declined to $1.32 per Mcf from $1.95 per Mcf in the prior year. In contrast, the strength in international crude oil prices improved the wellhead price received by the Company for the sale of crude oil by 24% to an average of $21.71 per Bbl. For the year, the share of total production revenue provided by natural gas sales was 74.5%, and by oil, 25.5%.

On a barrel of oil equivalent basis (BOE), utilizing 10 Mcf = 1 BOE, operating and administrative expenses dropped 20% to $5.55 per BOE due to higher levels of gas production. The total of royalties net of ARTC paid to the Alberta Crown and others increased slightly as a percentage of gross production revenue from 8.3% to 9.4%. Netbacks, after royalties and operating costs, for natural gas decreased to $1.03 per Mcf from $1.33 per Mcfd due to the lower sale prices, while the netback for crude oil improved to $10.91 per Bbl from $4.74 per Bbl.

Cash flow for the year was up 8% at $905,764 compared to $840,716 in the previous year. This cash flow together with existing working capital was applied to total capital expenditures of $1,358,393. These capital expenditures were directed to the following main categories (prior year's expenditures are indicated in brackets); drilling and completion $739,280 ($672,751), purchase of petroleum and natural gas rights $258,155 ($277,646) and equipment and pipelines $142,814 ($215,092).

The Company's working capital position declined to $42,413, and at July 31,1995 the Company had no debt and a credit facility of $680,000 available with a Canadian chartered bank.

PETROLEUM AND NATURAL GAS RESERVES

The Company's reserves were estimated as at August 1, 1995, by the independent petroleum engineering firm of Martin Petroleum & Associates Ltd. of Calgary. The volumes and estimated present value of the Company's proved and probable reserves, as determined by Martin, are shown in the following table. The values are forecast after the payment of operating expenses, capital costs and royalties, but prior to the payment of income taxes and indirect costs such as general and administrative expenses.

PETROLEUM AND NATURAL GAS RESERVES AND NET PRE-TAX CASH FLOWS
(Based on Escalating Price Assumptions)

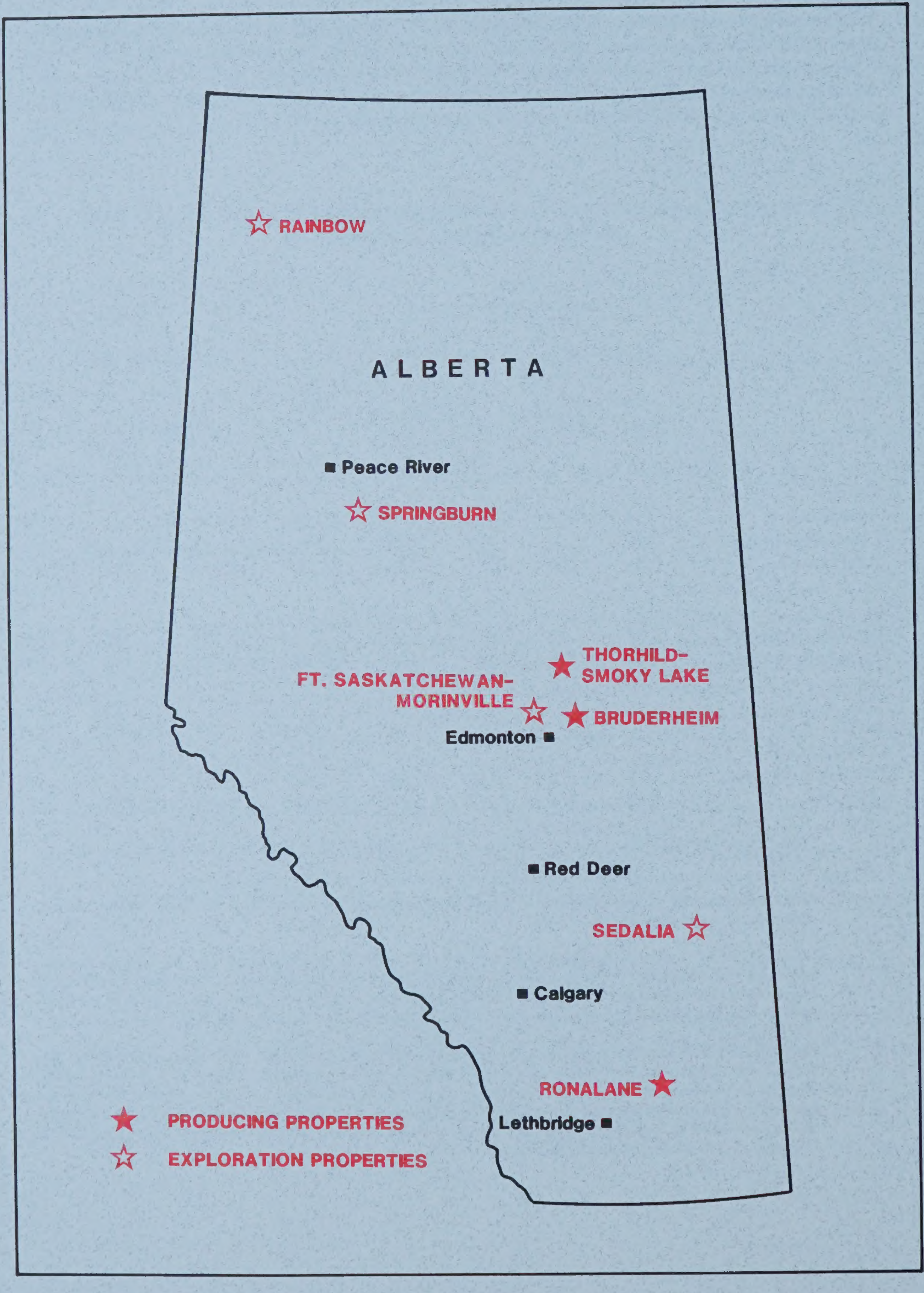
	Company's interest in reserves				Present worth of future net pre-tax cash flows			
	Crude Oil (Mbls)		Natural Gas (MMcf)		Discounted at			
	Gross [1]	Net [2]	Gross [1]	Net [2]	0%	10%	15%	20%
						(thousands)		
Proved [3]								
Producing	154	138	2,138	1,771	$ 4,190	$ 2,910	$ 2,552	$ 2,283
Non-producing	101	87	1,099	885	2,900	1,351	1,030	816
Total Proved	255	225	3,237	2,656	$ 7,090	$ 4,261	$ 3,582	$ 3,099
Probable Additional [4]	61	52	2,260	1,922	5,799	1,707	1,122	797
Total before ARTC	**316**	**277**	**5,497**	**4,578**	**$12,889**	**$ 5,968**	**$ 4,704**	**$ 3,896**
ARTC					913	480	393	335
Less risking of Probable Additional	31	26	1,130	961	2,900	854	561	399
TOTAL	**285**	**251**	**4,367**	**3,617**	**$10,902**	**$ 5,594**	**$ 4,536**	**$ 3,832**

(1) "Gross" means the total of the Company's working interest and/or royalty interest share before deducting royalties owned by others.

(2) "Net" means the total of the Company's working interest and/or royalty interest share after deducting the amounts attributable to the royalties payable to others.

(3) "Proved Reserves" means those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir, which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

(4) "Probable Additional Reserves" means reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.


RAINBOW
ALBERTA
Peace River
SPRINGBURN
THORHILD-
SMOKY LAKE
FT. SASKATCHEWAN-
MORINVILLE
BRUDERHEIM
Edmonton
Red Deer
SEDALIA
Calgary
RONALANE
Lethbridge
PRODUCING PROPERTIES
EXPLORATION PROPERTIES

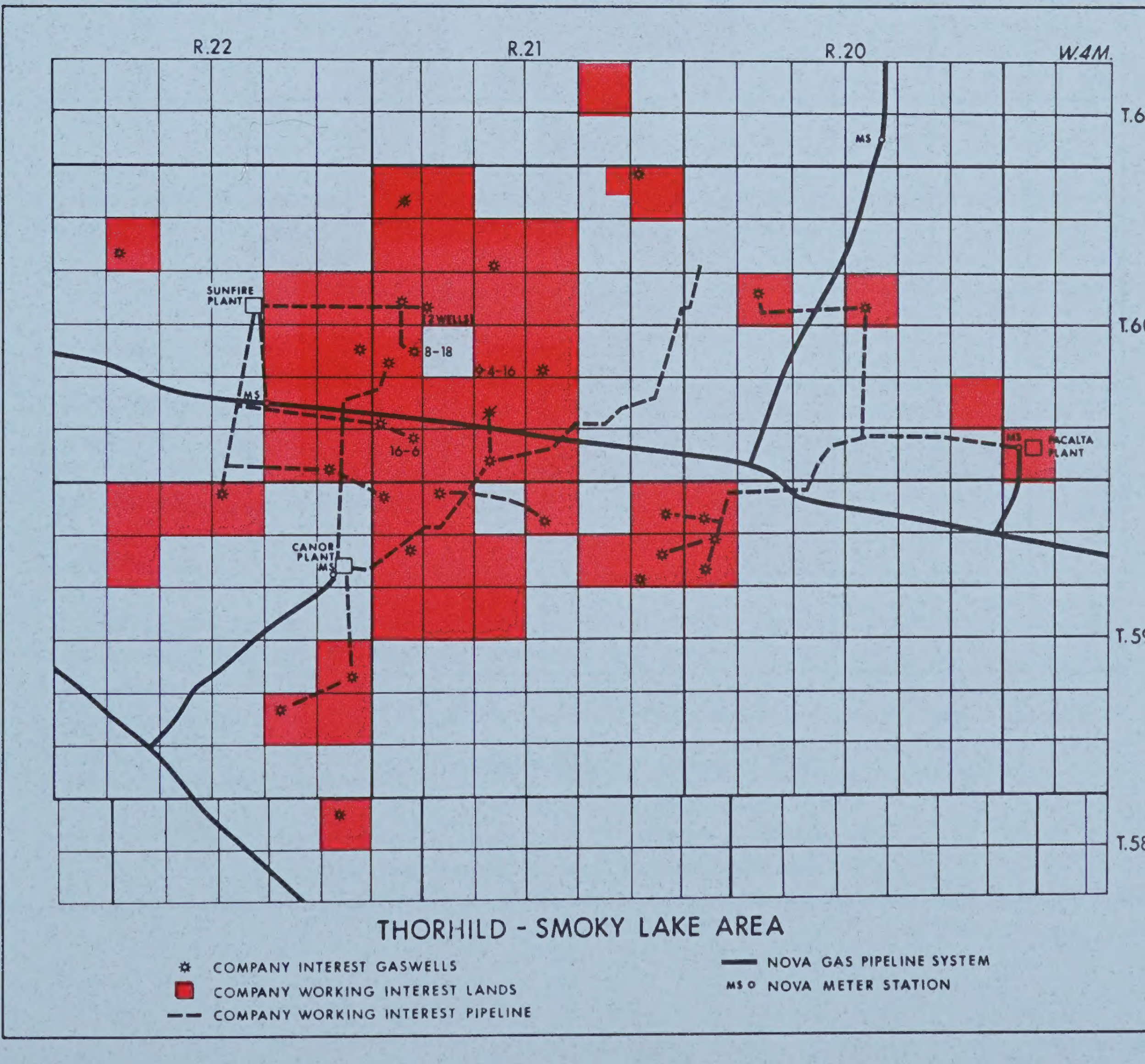
PROPERTY REVIEW

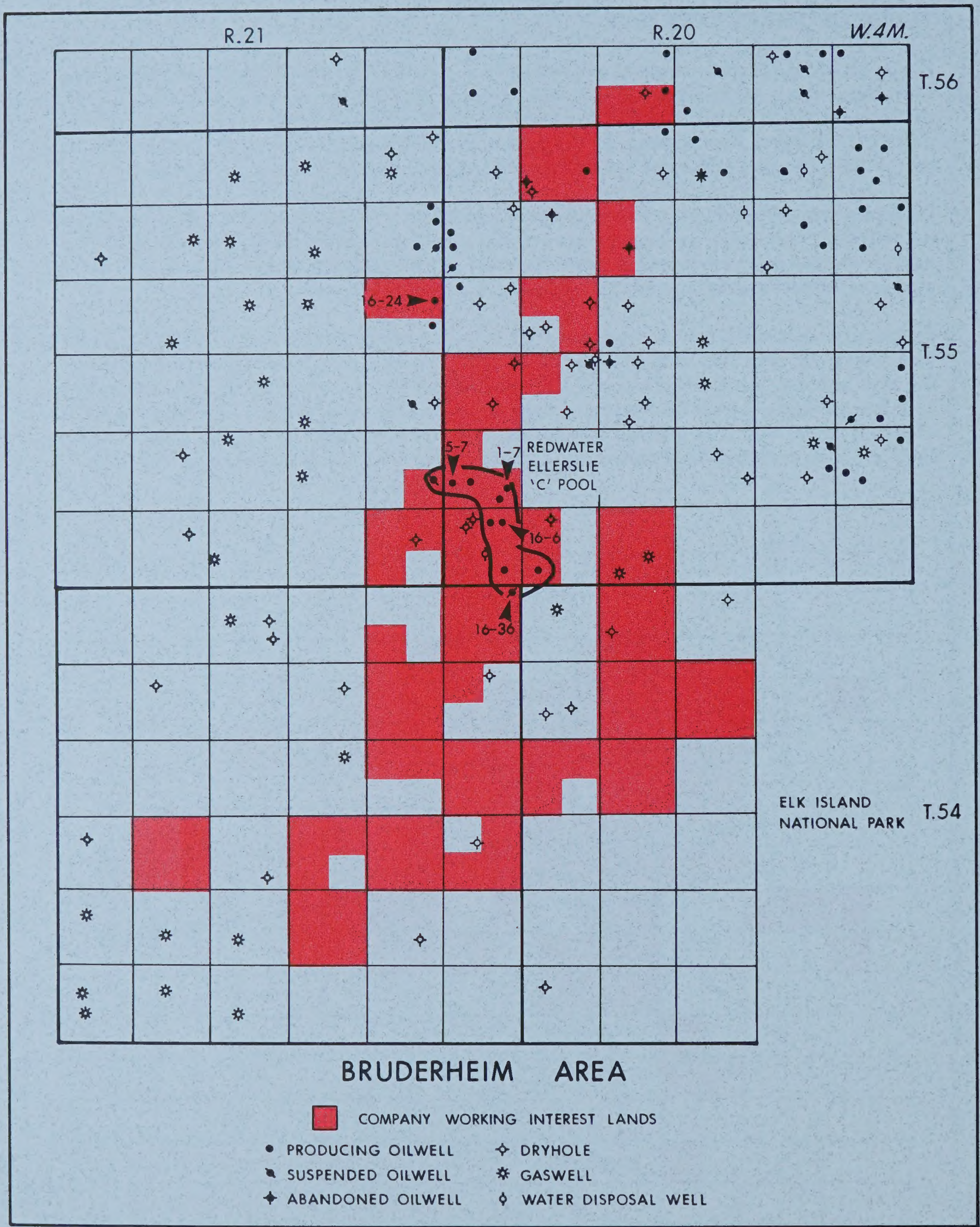
THORHILD - SMOKY LAKE AREA

Almost all of the Company's natural gas production is obtained from the Thorhild-Smoky Lake area, where the Company has an average 19% working interest in 17 producing gas wells. As at July 31, 1995, the Company held an average 25% working interest in over 57 sections of petroleum and natural gas rights totaling 37,760 acres. Approximately 50% of these lands remain undeveloped and will form the basis for the Company's ongoing exploration and development program in the area for the next few years.

During the year ended July 31, 1995, the company participated with an average 32% working interest in the drilling of 3 new wells, resulting in 2 gas wells and a dry hole. Both of the gas wells, 16-6 and 8-18, together with two previously shut-in gas wells, were tied-in to the gathering system. These wells added an average of 265 Mcf/d to the Company's total daily gas production for the year.

Production from a number of the Company's gas wells is declining as reserves are produced. In the forthcoming year, several re-completions will be undertaken on some of these wells to access undeveloped shallower reserves. In addition, a further 5 new wells will be drilled. As the gathering system expands to tie-in new gas wells, some of the 5 currently shut-in gas wells will also be tied-in. The primary objective of activity in this area is to establish a production level that will utilize the available capacity of the facilities. If this production level can be achieved, the Company's net share would exceed 2,500 Mcf/d.




R.21
R.20
W.4M.
T.56
T.55
T.54
16-24
5-7
1-7
REDWATER
ELLERSLIE
'C' POOL
16-6
16-36
ELK ISLAND
NATIONAL PARK
BRUDERHEIM AREA
COMPANY WORKING INTEREST LANDS
PRODUCING OILWELL
SUSPENDED OILWELL
ABANDONED OILWELL
DRYHOLE
GASWELL
WATER DISPOSAL WELL

BRUDERHEIM

During the year, the Company participated in the drilling of 8 wells with an average working interest of 25%. This activity resulted in 3 additional oil wells together with a shut-in gas well and a dry hole within the limits of our existing oil pool. The addition of the new oil wells increased oil production at year end by 68% to 180 Bbls/d (net 41 Bbls/d). Three miles north of our pool, a new oil well was drilled on a 320 acre lease that is currently offset by a number of oil wells that have been drilled by industry competitors. Although less productive that some of the offset wells, the new well, 16-24, has encountered the same oil pool. Further drilling will be undertaken to evaluate this lease during the forthcoming year. Exploration of the extensive landholdings in the area continued with the drilling of two exploratory wells, both of which were abandoned. The Company currently holds an average working interest of 36% in 11,129 acres of undeveloped lands. Exploration of these lands will continue with the acquisition of new seismic data and the drilling of two exploratory wells.

RONALANE

At Ronalane, the Company has been producing oil since 1988, and production has declined to 19 Bbls/d (net 11 Bbls/d). Since the Company has a 55% working interest in treating and water disposal facilities, considerable effort has been focused on the immediate area with the objective of increasing oil production. During the year, a 3 square kilometre 3-D seismic program was undertaken. Several potential drilling targets were revealed by this program, and one well was drilled in July. Unfortunately, this well was unsuccessful and further drilling is being considered for the forthcoming year.

OTHER EXPLORATION AREAS

Approximately 10% of the Company's capital expenditures during the year were devoted to seismic data and land acquisition in areas where prospects for future exploratory drilling have been established. At present prospective exploratory lands have been acquired in the following areas.

Fort Saskatchewan

The Company has a 100% working interest in 1,491 acres of freehold lands near the town of Fort Saskatchewan. A small seismic program undertaken in 1994 indicated a Basal Cretaceous light to medium gravity oil prospect at depths ranging from 1,000 to 1,100 metres. Further land and seismic data acquisition will be undertaken prior to drilling in 1996.

Morinville

This area, located 10 miles northwest of Edmonton, has the potential for multi-zone production from both Cretaceous and Devonian age formations. Although light gravity oil within the Leduc age reefs at an average depth of 1,500 metres is the primary target, significant potential production of medium gravity oil and natural gas from the shallower Cretaceous sandstones also offers an attractive prospect. Currently, the Company holds a 100% working interest in 1,931 acres of Crown and freehold lands. Once the acquisition of additional lands have been completed, a 3-D seismic program will be undertaken in 1996.

Rainbow

Depressed natural gas prices led to a postponement of the plans for drilling the natural gas prospect in the Rainbow Field in 1995. Seismic and drilling activity during the winter of 1996/97 will be pursued, if funding is available. The Company has an average 59% working interest in 2,240 acres of Crown lands in the Rainbow area of Northwestern Alberta.

Sedalia

The Company has a 100% working interest in 1,280 acres of Crown lands located in East Central Alberta. The acquisition of additional interests in a further 2,560 acres of offsetting land is currently being negotiated. These lands have multi-zone potential for both light crude oil and natural gas at depths ranging from 200 to 1,400 metres. One 1,000 metre well is currently planned for drilling during 1996.

Springburn

The Company has a 52% working interest in 2,080 acres of Crown land located southeast of the town of Peace River. The primary exploration objective on these lands is light gravity oil within the Slave Point and Granite Wash Formations at a depth of 2,100 metres. Prior production in the area has indicated potential recoverable reserves can exceed 500,000 Bbls of oil per 160 acres. The combination of depth and remoteness of the area causes both drilling and operating costs to be high. In order to limit the Company's financial exposure in this prospect to an acceptable level, joint venture arrangements with potential industry partners will be pursued.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SUNFIRE ENERGY CORPORATION

We have audited the consolidated balance sheet of Sunfire Energy Corporation as at July 31, 1995 and 1994 and the consolidated statements of income and retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1995 and 1994 and the results of its operations and the changes in its cash resources for the years then ended in accordance with generally accepted accounting principles.

Friesen, Henrickson & Hanson

CHARTERED ACCOUNTANTS

Calgary, Canada
October 24, 1995

SUNFIRE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

July 31, 1995 and 1994

	1995 $	1994 $
ASSETS		
CURRENT ASSETS		
Cash and term deposits	**413,381**	618,885
Accounts receivable (Note 2)	**518,132**	614,197
Prepaid expenses	**6,288**	6,419
Current portion of notes receivable (Note 3)	**6,100**	10,200
	943,901	1,249,701
NOTES RECEIVABLE (Note 3)	**6,210**	10,071
CAPITAL ASSETS (Note 4)	**5,667,117**	4,749,610
	6,617,228	6,009,382
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 5)	**901,488**	710,752
Finance contracts payable on equipment	**-**	39,524
	901,488	750,276
PROVISION FOR RESTORATION AND ABANDONMENT	**68,300**	58,300
DEFERRED INCOME TAXES (Note 6)	**342,700**	200,800
	1,312,488	1,009,376
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	**4,087,977**	4,096,221
RETAINED EARNINGS	**1,216,763**	903,785
	5,304,740	5,000,006
	6,617,228	6,009,382

See accompanying notes

Approved by the Board:

Peter W. Goodman, Director

John M. Westlake, Director

SUNFIRE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED JULY 31, 1995 AND 1994

	1995 $	1994 $
REVENUE		
Petroleum and natural gas sales	**1,338,141**	1,225,118
Less Royalties, net of tax credits	**(125,716)**	(101,331)
	1,212,425	1,123,787
Interest and other income	**186,725**	166,446
	1,399,150	1,290,233
EXPENSES		
General and administrative	**192,660**	171,012
Well operating expenses	**303,237**	281,271
Depletion	**448,375**	369,000
	944,272	821,283
INCOME BEFORE TAXES	**454,878**	468,950
DEFERRED INCOME TAXES (Note 6)	**141,900**	165,000
NET INCOME FOR YEAR	**312,978**	303,950
RETAINED EARNINGS BEGINNING OF YEAR	**903,785**	599,835
RETAINED EARNINGS END OF YEAR	**1,216,763**	903,785
NET INCOME PER SHARE		
Basic	**7.3 ¢**	8.7¢
Average common shares outstanding (Note 1e)	**4,277,287**	3,479,360

See accompanying notes

SUNFIRE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES

YEARS ENDED JULY 31, 1995 AND 1994

	1995 $	1994 $
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net income for year	**312,978**	303,950
Items not requiring cash outlays		
Amortization and depletion	**450,886**	371,766
Deferred income taxes	**141,900**	165,000
	905,764	840,716
Changes in other working capital elements		
Accounts receivable	**96,065**	(213,305)
Prepaid expenses	**131**	(792)
Accounts payable	**190,736**	32,721
	1,192,696	659,340
FINANCING ACTIVITIES		
Net proceeds from issue of common shares	**-**	1,023,562
Share capital reacquired	**(8,244)**	-
Repayment of lease obligations	**(39,524)**	(47,309)
	(47,768)	976,253
INVESTING ACTIVITIES		
Expenditures on oil and gas properties and equipment	**(1,358,393)**	(1,331,000)
Notes receivable repayments net of current portion	**7,961**	5,095
	(1,350,432)	(1,325,905)
NET (DECREASE) INCREASE IN CASH DURING YEAR	**(205,504)**	309,688
CASH BEGINNING OF YEAR	**618,885**	309,197
CASH END OF YEAR	**413,381**	618,885
CASH FLOW FROM OPERATIONS PER SHARE	**21.2¢**	24.2¢

See accompanying notes

SUNFIRE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1995

1. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Freeman Energy Ltd. All material intercompany balances, transactions and profits have been eliminated.

b. Joint operations

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

c. Property and equipment

Oil and gas

The company follows the full cost method of accounting for oil and gas operations whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Such amounts include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of wells and acquisition of production equipment. All such costs, excluding the cost of unproved properties of $851,434, are depleted on the unit-of-production method based upon estimated net proved reserves before royalties of oil and gas as determined by management. In calculating the units of production natural gas and crude oil reserves are converted to equivalent units based on the current sales value of each product. Gains or losses are not recognized on the disposition of properties except when significant dispositions of reserves are made.

The company's oil and gas properties are subject to a ceiling test under which the carrying value is limited to the future net revenue from production of estimated proved oil and gas reserves valued at year-end prices plus the lower of cost and estimated value of undeveloped properties less financing costs and income taxes. The application of this ceiling test resulted in no further amortization or depletion.

Furniture and office equipment

Furniture and office equipment are recorded at cost and amortized using the declining balance method at the following annual rates:

Furniture	20%
Computer equipment	30%
Computer software	100%

d. Provision for restoration and abandonment

Estimated future costs for restoring oil and gas properties are being prorated over the life of the proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, technology and industry standards. The annual charge is included in depletion expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account when incurred.

e. Per share data

Cash flow from operations and net income per share are calculated based on the weighted average number of shares outstanding during the year. Fully diluted net income per share is not shown as there are no material dilutive factors.

2. ACCOUNTS RECEIVABLE

	1995 $	1994 $
Trade	**423,223**	481,230
Related parties	**3,634**	-
Cash Calls	**69,777**	14,760
Alberta Royalty Tax Credits	**21,498**	118,207
	518,132	614,197

The company conducts business activities with entities which are related by common management essentially for the operation and exploration of oil and gas properties. These business activities with related parties are conducted under normal trade terms and/or contractual arrangements, and are expected to continue in the future. Related parties include the following entities:

Harlech Exploration Ltd. (a company controlled by the President)
Hi-Tech Exploration Services Ltd. (a company controlled by the President)
Gower Petroleum Ltd. (a company controlled by the President)

3. NOTES RECEIVABLE

	1995 $	1994 $
Notes receivable	**12,310**	20,271
Less current portion	**(6,100)**	(10,200)
	6,210	10,071

Amounts due from participants in the Smoky Lake Natural Gas Program are unsecured, non-interest bearing, and repayable out of net income accruing to the participants.

4. CAPITAL ASSETS

	1995	1994
	$	$
Petroleum and natural gas properties and equipment	**7,658,448**	6,302,576
Furniture and office equipment	**32,821**	30,300
	7,691,269	6,332,876
Less accumulated depletion and amortization	**(2,024,152)**	(1,583,266)
	5,667,117	4,749,610

Petroleum and natural gas properties and equipment have a tax basis of $4,627,000 at July 31, 1995.

5. ACCOUNTS PAYABLE

	1995	1994
	$	$
Trade	**895,611**	690,314
Related parties	**-**	2,609
Cash calls	**5,877**	17,829
	901,488	710,752

6. DEFERRED INCOME TAXES

The provision for deferred income taxes differs from the result obtained by applying the combined Canadian federal and provincial corporate income tax rates of 44.96% (1994 44.34%) to net income before taxes and arises from the following:

	1995	1994
	$	$
Income taxes at statutory rates	**205,000**	208,000
Add (deduct) the tax effect of:		
Non-deductible Crown Royalties and payments	**70,800**	51,200
Alberta Royalty Tax Credits	**(51,600)**	(52,400)
Resource allowance	**(55,500)**	(38,800)
Prior years' losses expired	**5,100**	8,300
Other	**(31,900)**	(11,300)
	141,900	165,000

At July 31, 1995, the company had $4,698,000 of tax pools available for deduction from future taxable income.

7. **SHARE CAPITAL**

a. **Authorized**
Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares
Unlimited number of Class C, D and E preferred shares

b. **Issued**

Class A shares	Number of Shares	Amount $
Balance July 31, 1993	3,116,590	3,072,659
Shares issued under public offering, net of issue costs of $137,938	1,161,500	1,023,562
Balance July 31, 1994	4,278,090	4,096,221
Repurchase of shares	(16,500)	(8,244)
Balance July 31, 1995	**4,261,590**	**4,087,977**

An option to purchase up to 116,150 common shares at $1.00 per share granted to McDermid St. Lawrence Chisholm Ltd. at the time of the public offering April 8, 1994 was not exercised and expired April 9, 1995.

8. **COMMITMENTS**

Under the terms of a lease for office premises expiring October 31, 1997, the company's minimum annual lease payments including estimated operating costs are as follows:

Year ending July 31,	1996	$38,940
	1997	$38,940
	1998	$ 9,735

9. **REMUNERATION TO OFFICERS AND DIRECTORS**

Direct remuneration to Directors and Officers of the company (2 individuals) totaled $134,988 for the year ended July 31, 1995 (1994 - $134,988).

The company capitalized $75,756 (1994 - $75,756) of the remuneration included above for the year as relating to the exploration and development of oil and gas properties.

NOTES

NOTES

CORPORATE INFORMATION

OFFICERS

John M. Westlake
President and Chief Executive Officer

Peter W. Goodman
Vice-President and Secretary

DIRECTORS

* Otto G. Demetz
Calgary, Alberta
Private Investor

* Peter W. Goodman
Cochrane, Alberta
Vice-President and Secretary of Sunfire Energy Corporation

Ernest P. Koop
Calgary, Alberta
President of CEDA International, a division of Enserv Corporation

* Christian Lemmer
Calgary, Alberta
President of Lemmer Spray Systems Ltd.

John M. Westlake
Calgary, Alberta
President and Chief Executive Officer of Sunfire Energy Corporation

* *Member of Audit Committee*

CORPORATE AND REGISTERED OFFICE

1050, 801 - 6th Avenue S.W.
Calgary, Alberta T2P 3W2
Telephone: (403) 290-1785

AUDITORS

Shannon Schroeder
Calgary, Alberta

BANKERS

Hongkong Bank of Canada
Calgary, Alberta

EVALUATION ENGINEERS

Martin Petroleum & Associates
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones Verchere
Calgary, Alberta

Code Hunter Wittman
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol SFE.A

SUBSIDIARY COMPANY

Freeman Energy Ltd.
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust
Calgary, Alberta

SUNFIRE ENERGY CORPORATION
1050, 801 Sixth Avenue S.W.
Calgary, Alberta
T2P 3W2

Telephone: (403) 290-1785
Facsimile: (403) 269-4349